**Follow up to the European Parliament non-legislative resolution on the implementation of the Sixth VAT Directive: what is the missing part to reduce the EU VAT gap?**

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**2. Reference number:** 2020/2263 (INI) / A9-0355/2021 / P9\_TA PROV(2022)0034

**3. Date of adoption of the resolution:** 16 February 2022

**4. Competent Parliamentary Committee:** Committee on Economic and Monetary Affairs (ECON)

**5. Brief analysis/assessment of the resolution and requests made in it:**

The resolution calls on the Council to adopt the Commission proposal for a definitive VAT system based on the principle of taxation in the country of destination. It also calls for limits on exemptions and reduced rates, and advocates for the introduction of a uniform standard rate, whilst recognising the importance of the ability of the Member States to set their own rates according to societal and budgetary requirements. The resolution also calls on the Commission to explore how to expand the scope of the EU One-Stop Shop. It furthermore considers it necessary to explore a more harmonised introduction of electronic invoicing in all the EU Member States, and the use of digital technology to improve the frequency and speed of data exchanges relating to supplies between the Member States. When it comes to reducing the VAT gap, the resolution calls on the Commission and the Member States to analyse and exchange best practices.

**6. Response to requests and overview of action taken, or intended to be taken, by the Commission:**

**Analysis and exchange of best practice in avoiding large VAT gaps, VAT gap measurements (paragraphs 1, 2 and 9)**

The ninth Commission report under Article 12 of Regulation (EEC, EURATOM) No 1553/89 on VAT collection and control procedures entitled ‘VAT Administration in the EU: Screening and Diagnostic Report’, will be adopted on 7 April 2022. It will identify opportunities for change and improvement of the performance of VAT administrations while paying attention to each country’s specificities. The recommendations in the report will all be based on good practice observed in those Member States that have succeeded in avoiding large VAT gaps or in reducing their national VAT gap substantially.

Furthermore, the Commission supports and participates in a project launched by Heads of tax administrations in the EU (TADEUS) on the estimation of several causes of the VAT gap, including missing trader intra-community (MTIC) and e-commerce fraud. The VAT gap corresponds to the difference between the VAT due and the actual VAT revenues. As such, it represents the VAT revenues lost compared to a theoretical VAT calculation.

Under the leadership of Italy, the related subgroups of that project are gathering information on methodologies applied in Member States and elsewhere, with the purpose of agreeing on best practices and building a common set of methodologies that can be used across the Member States.

Currently, to estimate the VAT gap in the EU, the Commission applies a consumption-side top-down methodology. This means that the estimates of the actual VAT revenues are based on the total VAT collected by the authorities in the Member States, measured and aggregated at national level. Member States do not provide more detailed data on the VAT collected. Estimates of the VAT gap by sector of economic activity or regional VAT gap measurements are therefore not possible.

**VAT rates (paragraphs 20, 21, 24, 25, 26, 27, 29, 31, 32, 33, 36, 37 and 38)**

The Commission proposed in 2018 to modernise and rationalise the VAT rates system[[1]](#footnote-1), to which the Council has agreed a general approach[[2]](#footnote-2). The European Parliament was consulted a second time[[3]](#footnote-3). Formal adoption is planned for 5 April 2022. The new rules provide Member States with more flexibility in the rates they can apply and ensure their equal treatment. At the same time, the updated legislation will bring the VAT rules into line with common EU priorities such as fighting climate change, supporting digitalisation and protecting public health.

Specifically, the rules:

* Update the list of goods and services (Annex III to the VAT Directive) to which all Member States can apply reduced VAT rates. New products and services added to the list include those that protect public health, are environmentally friendly and support the digital transition. Once the rules come into force, the Member States will for the first time also be able to exempt from VAT certain listed goods and services considered to cover basic needs.
* Remove the possibility by 2030 for Member States to apply reduced rates and exemptions to goods and services deemed detrimental to the environment and to the EU's climate change objectives.
* Make derogations and exemptions for specific goods and services, currently in place for historical reasons in certain Member States, available to all countries to ensure equal treatment and avoid distortions of competition. However, existing derogations that are not justified by public policy objectives and do not support EU climate action will need to end by 2032.

**Digital Reporting Requirements and the One Stop Shop (paragraph 15, 16, 38 and 48)**

The 2020 Tax Action Plan announced a legislative proposal in 2022 under the heading VAT in the Digital Age covering:

1. Digital Reporting Requirements (DRR) and e-invoicing focusing on modernising VAT reporting obligations and the role of e-invoicing in order to combat fraud.
2. VAT aspects of the platform economy (sharing, gig) aiming to find uniform ways to qualify and tax these activities from a VAT perspective.
3. The Single VAT Registration in the EU (SVR) aiming to further extend the scope of the transactions covered by the One-Stop-Shop (OSS) and to avoid registration in Member States where the business is not established, even if it is carrying out taxable transactions in those Member States. The Commission will also analyse the possibility to provide for the obligatory use of the Import One Stop Shop (IOSS). The removal of the EUR150 threshold set for its use will also be examined.

A study covering all the three topics was launched in 2020 and aims to identify options for the future legislative proposal, which is due for adoption by the Commission in October 2022. A public consultation is underway and will close in early May.

**Mechanism revising the multiannual weighted average rate during the period covered by the multiannual financial framework**

The Court of Auditor’s proposal included in the Opinion 11/2020 on the draft Council regulation (EU, Euratom) amending Regulation (EEC, Euratom) No 1553/89 on the definitive uniform arrangements for value added tax based own resource was analysed in the framework of the Council’s Working Party on Own Resources. The agreed text of the Council Regulation 2021/769 of 30 April 2021 amending Regulation (EEC, Euratom) No 1553/89 does not currently include any mechanism of revising the multiannual weighted average rate, however this will be taken into consideration for the following amendments.

1. [COM/2018/020 Final](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2018%3A20%3AFIN) [↑](#footnote-ref-1)
2. [Council General Approach to VAT rates](https://data.consilium.europa.eu/doc/document/ST-14754-2021-INIT/en/pdf) [↑](#footnote-ref-2)
3. [European Parliament re-consultation on VAT rates](https://www.europarl.europa.eu/doceo/document/TA-9-2022-0061_EN.html) [↑](#footnote-ref-3)